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SUBJECT: GEORGIA: DAS KAIDANOW TALKS DEMOCRACY, CONFLICTS,
ECONOMY WITH GOVERNMENT

Classified By: Charge d'Affaires a.i. Kent Logsdon for reasons 1.4 (b)
and (d).

¶1. (C) Summary. EUR DAS Kaidanow met with Georgian officials to urge further progress on democratic reforms and review the current situation around Georgia's conflict zones. She urged the government to avoid provocations in the Black Sea and discussed the increasingly heated tone of rhetoric from Moscow. Georgia officials repeatedly sought proactive signals from NATO on the margins of the upcoming Ministerial and DAS Kaidanow urged Georgia to take advantage of the levers that are available, especially the NATO-Georgia Commission. DAS Kaidanow recommended to Deputy FM Bokeria and others that Georgia do all it can to foster the perception that a level playing field is being created for the spring 2010 municipal elections. Prime Minister Gilauri expressed optimism that the economy was looking up, and thanked the DAS Kaidanow for U.S. support during Georgia's darkest times. DAS Kaidanow encouraged the PM to increase transparency in the reform process and to strengthen rule of law to attract needed investments. End Summary.

Tensions on the ABLs

¶2. (C) DAS Kaidanow and Foreign Minister Vashadze met November 17 to discuss ongoing developments. Vashadze raised the teenagers detained by South Ossetian de facto authorities, emphasizing Georgia's view that Russia is testing the response of the international community to see where redlines exist. The FM painted a bleak picture of unconstructive Russian behavior at the November 11 Geneva talks and noted with concern a recent assessment by Geneva co-chair and EU Special Representative for the Conflict in Georgia Pierre Morel that the talks had achieved progress. Vashadze predicted darkly that Morel would eventually push the Georgians to accept the Russian conception of a "no use of force" agreement between Georgia and the two breakaway regions of Abkhazia and South Ossetia, which Vashadze said Georgia would not do given the implicit recognition of their independence inherent in concluding such an agreement. The Foreign Minister acknowledged the Geneva talks as the only forum for Georgian-Russian discussions and said, "Let's keep it alive." DAS Kaidanow agreed with the utility of the talks and assured Vashadze that the United States would support Georgia's position on the non-use of force agreement, which would have to include elements of an international monitoring or security presence in the two regions in order to be a viable proposal.

¶3. (C) Vashadze said that Georgia does not want to suffocate Abkhazia and South Ossetia and is willing to be forward-leaning with creative ideas about engagement -- as long as those ideas do not cross the line of recognition. In internal discussion about the territories, Vashadze said that he has urged that the Georgian government focus on areas under government control "in essence," he said, we should "forget about Russia" and move forward with necessary reforms. He admitted, however, it was hard to forget about

Russia in light of heated rhetoric from Moscow suggesting that Georgia was building its arms capabilities and harboring Al Qaeda. Vashadze told DAS Kaidanow that Russian FM Lavrov wanted to garner as many recognitions of the independence of Abkhazia and South Ossetia as Kosovo had been able to achieve. Kaidanow noted that, thus far, Russia has failed in its efforts and has found little willingness within the Qits efforts and has found little willingness within the international community to support its position. In an effort to counter Russian efforts, Vashadze noted, Deputy Foreign Ministers Bokeria and Nalbandov both planned to visit Central and South America to discourage further recognitions.

The Foreign Minister said that Belarus stood at a key decision point, and he urged the United States to consider inviting the Belarusian foreign minister to Washington. Vashadze described an internal debate waging in Belarus, and said he believed it was possible that Minsk would reject domination from Moscow and pursue reforms. He acknowledged that Belarusian recognition of Abkhazia and South Ossetia could become almost inevitable in January when Belarus becomes hostage to Russian gas deliveries.

¶4. (C) Vashadze, a former Soviet diplomat, speculated that the Russians see a trade off: in his view, the Russians expect the United States will "trade" Georgia for help on Iran and Afghanistan. He asserted that U.S. efforts to improve the relationship with Russia would be interpreted as weakness by the Kremlin. DAS Kaidanow noted that U.S. efforts with Russia were designed to make progress on a number of important issues, but did not compromise our basic support for Georgia's sovereignty and territorial integrity.

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¶5. (C) Vashadze said that Georgia is making serious progress with the EU on visa facilitation and that an association agreement was within reach, including an FTA. Turning to NATO, the FM asserted that the language of the Bucharest Summit has become stale, and it was important that NATO recommit to Georgia's membership prospects. He hoped that NATO would issue a strong statement at the December ministerial supporting Georgia's accession. DAS Kaidanow urged Georgia to recognize that it was unrealistic to expect strong communique language on Georgia's membership aspirations, but hoped that we could work together to formulate positive outcomes for the NATO-Georgia Commission. Vashadze said that the Georgian Embassy had requested a meeting for him with Secretary Clinton at the upcoming ministerials and asked DAS Kaidanow to follow up in Washington.

Georgian Regional Relations

¶6. (C) Vashadze told DAS Kaidanow that he intended to visit Iran on January 19; he was obliged to return the two visits the Iranians have made to Georgia since the war. He was concerned that Iran was considering recognition, so believed it important to talk directly with the Foreign Ministry. Closer to home, Vashadze said that Georgia is open to ideas to open the border with Russia, primarily because Georgia wants to ease Armenia's isolation. He also noted that Georgia would have a working group with Turkey on November 19 to discuss the issue of commercial ships sailing to Abkhazia. The Foreign Minister previewed that he may request U.S. assistance to reach an agreement with the Turks that would be aimed at preventing provocations in the Black Sea.

PM - Economic Development Strategy for Reintegration

¶7. (C) Prime Minister Nika Gilauri thanked the U.S. for its support, and stressed that without it the Georgian economy would not have held on after the war and global financial crisis. He thanked DAS Kaidanow for the speed with which the U.S. delivered its pledged assistance, and lamented the

Europeans' tardiness. On all issues, Gilauri said, Georgia knows what it needs to do, but often, given its youth, makes mistakes getting there. He said that Georgia wants to show the region and the world that this post-Soviet experiment will work. Georgia's most painful mistake, the loss of the territories, can only be rectified through economic growth, and by using this growth to attract the separatist regions. DAS Kaidanow agreed that this was a good approach and that Georgia was doing the right thing in developing a strategy for long-term engagement to build people-to-people linkages.

Jobs are the Key, So is Rule of Law

¶18. (C) Gilauri said his number one goal was job creation, and that to create jobs Georgia needs foreign direct investment. In order to attract this investment, Georgia must be extraordinary and offer a more attractive business environment than other developing markets in the region and Eastern Europe. Gilauri highlighted Transparency International's recent rankings, including an improvement in Georgia's "perception of corruption" ranking. DAS Kaidanow stressed that strengthening the rule of law is essential to attracting investment, as businesses need predictability and also must know they will not be harassed for political or other reasons. She encouraged increasing transparency in tax administration, where U.S. firms in particular had complained of targeted harassment by tax authorities. Gilauri Qof targeted harassment by tax authorities. Gilauri acknowledge recent criticism by the business community, and said that several new initiatives were aimed at addressing these concerns, such as adding transparency to tax disputes by putting business representatives on the dispute council. The Prime Minister stressed, however, that it had been a very difficult 18 months for the Georgian economy, and during this time, especially during the April-July protests, many businesses did not pay their taxes. He said the government had to be strong in its tax enforcement against these companies, as the budget desperately needed these missing inflows.

Liberty Act to Institutionalize Reforms

¶19. (C) Gilauri then explained that the recently introduced Liberty Act would institutionalize reforms within the constitution. DAS Kaidanow expressed concern that tying fiscal policy to constitutional changes would make it impossible for the government to raise taxes and revenue if it were faced with a crisis. Gilauri took these concerns on board, but claimed that the Government would make a reasoned appeal to the voters, who he argued would then authorize such

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an increase. Gilauri said that Georgia looks on-track to achieve two percent GDP growth in 2010, but noted that the country must attract one billion in foreign inflows to accomplish this. He did not think this would be difficult, and hoped that growth might be closer to four to five percent. DAS Kaidanow and the Ambassador emphasized transparency in institutionalizing reforms, and encouraged the Prime Minister to explain changes to the business community.

¶10. (U) DAS Kaidanow cleared this cable.
LOGSDON